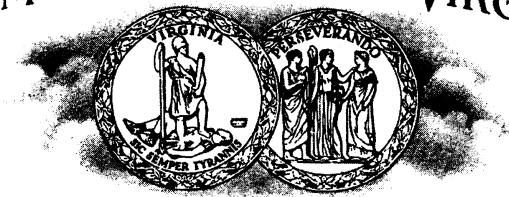


**EXAMINATION REPORT**  
**of**  
**HEALTHKEEPERS, INC.**  
**Richmond, Virginia**  
**as of**  
**December 31, 2007**

# COMMONWEALTH OF VIRGINIA

ALFRED W. GROSS  
COMMISSIONER OF INSURANCE  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE



P.O. BOX 1157  
RICHMOND, VIRGINIA 23218  
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<http://www.scc.virginia.gov/division/boi>

I, Alfred W. Gross, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of HealthKeepers, Inc. as of December 31, 2007, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand  
and affixed to the original the seal of the Bureau at the City  
of Richmond, Virginia this 10<sup>th</sup> day of October, 2008

Alfred W. Gross  
Commissioner of Insurance

(SEAL)

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Richmond, Virginia  
July 3, 2008

Honorable Alfred W. Gross  
Commissioner of Insurance  
Richmond, Virginia

Dear Sir:

Pursuant to your instructions and by the authority of Section 38.2-4315 of the Code of Virginia, an examination of the records and affairs of

**HEALTHKEEPERS, INC.**

Richmond, Virginia

hereinafter referred to as the Corporation, has been completed. The report thereon is submitted for your consideration.

**DESCRIPTION**

The Corporation became licensed in Virginia as a health maintenance organization ("HMO") pursuant to Chapter 43 of Title 38.2 of the Code of Virginia on June 12, 1986. The Corporation was last examined by representatives from the State Corporation Commission's (the "Commission") Bureau of Insurance (the "Bureau") as of December 31, 2004. This examination covers the period from January 1, 2005 through December 31, 2007.

**HISTORY**

The Corporation was incorporated in the Commonwealth of Virginia on April 8, 1985. The Corporation was formed as a not-for-profit stock corporation by Blue Cross and Blue Shield of Southwestern Virginia. On February 11, 1986, Blue Cross and Blue Shield of Southwestern Virginia transferred all the stock of the Corporation to Blue Cross and Blue Shield of Virginia. On February 12, 1986, the Corporation amended its Articles of Incorporation to become a for-profit entity. On July 15, 1987, the corporate structure was reorganized and ownership of the Corporation was transferred to Healthcare Support Corporation ("HSC").

Effective November 1, 1997, HMO Virginia, Inc. ("HMOVA"), an affiliated HMO, and the Corporation merged, with the Corporation remaining as the surviving entity. Effective July 1, 1998, HSC and Trigon Administrators, Inc. ("Trigon Administrators") merged, with Trigon Administrators remaining as the surviving entity and owner of the Corporation. Effective November 1, 1998, Physicians Health Plan, Inc. ("PHP"), an affiliated HMO, and the Corporation merged, with the Corporation remaining as the surviving entity. Effective March 31, 2001, Trigon Administrators was sold and the outstanding shares of the Corporation were distributed to Trigon Healthcare, Inc. ("Trigon Healthcare")

On July 31, 2002, Trigon Healthcare and Anthem, Inc., a publicly traded company incorporated in Indiana, completed a merger in which Trigon Healthcare was merged into a wholly-owned subsidiary of Anthem, Inc. ("Anthem") that subsequently changed its name to Anthem Southeast, Inc. ("Anthem Southeast"). The Corporation became a wholly-owned subsidiary of Anthem Southeast.

On November 30, 2004, Anthem, the Corporation's ultimate Parent, and WellPoint Health Networks, Inc. ("WellPoint Health Networks") completed a merger in which WellPoint Health Networks and all WellPoint subsidiaries merged with and into Anthem Holding Corp., a direct and wholly-owned subsidiary of Anthem with Anthem Holding Corp. as the surviving entity in the merger. In connection with the merger, Anthem amended its articles of incorporation to change its name to WellPoint, Inc. ("WellPoint")

Effective January 1, 2006, UNICARE Health Plan of Virginia, Inc. ("UNICARE Health Plan"), an affiliated HMO, and the Corporation merged, with the Corporation remaining as the surviving entity. As a result of the merger, UNICARE National Services, Inc. ("UNICARE National"), UNICARE Health Plan's parent company, received 25 shares of the Corporation's common stock which was commensurate with the fair value of UNICARE Health Plan at the date of merger. Prior to the merger the Corporation was a wholly-owned subsidiary of Anthem Southeast. After the merger and at December 31, 2007, the Corporation is 88.89% owned by Anthem Southeast and 11.11% owned by UNICARE National.

### **CAPITAL AND SURPLUS**

At December 31, 2007, the Corporation's capital and surplus was \$180,468,299. According to the Articles of Incorporation, the Corporation has the authority to issue 10,000 shares of common stock with a par value of \$5 per share. At December 31, 2007, 225 shares were outstanding, with gross paid in and contributed surplus of \$17,598,662, surplus notes of \$8,716,141 and unassigned funds (surplus) of \$154,152,371.

As a result of the mergers with HMOVA and PHP, the Corporation assumed subordinated loans executed between the two companies and Trigon Insurance Company (currently Anthem Health Plans of Virginia, Inc.). The outstanding principal on the loans assumed totaled \$6,716,141 from HMOVA and \$2,000,000 from PHP. At December 31, 2007, accrued interest on these loans equaled \$8,588,918.

### **NET WORTH REQUIREMENT**

Section 38.2-4302 of the Code of Virginia states that an HMO licensed in Virginia shall maintain a minimum net worth in an amount at least equal to the sum of uncovered expenses, but not less than \$600,000, up to a maximum of \$4,000,000. 14 VAC 5-210-60 A requires that an HMO report the sum of its uncovered expenses for each three-month period ending December 31, March 31, June 30 or September 30. Because the sum of the Corporation's uncovered expenses for the three-month period ending December 31, 2007 was \$23,847,023, the Corporation's minimum net worth requirement at December 31, 2007 was \$4,000,000.

### **MANAGEMENT AND CONTROL**

The bylaws of the Corporation provide that the affairs of the Corporation shall be managed by a board of not fewer than three and not more than six directors. A majority of the directors shall constitute a quorum for the transaction of business.

The bylaws also provide that the board may designate two directors to constitute an Executive Committee. The Executive Committee shall have and may exercise all the authority of the board of directors except to approve an amendment of the bylaws of the Corporation or plan of merger or consolidation. Additionally, the Executive Committee may designate any other committees as may be deemed desirable.

The officers of the Corporation shall consist of a Chairman of the Board, a President, a Secretary, a Treasurer, and such other officers as the Board of Directors may from time to time deem necessary. The Chairman of the Board shall preside at all meetings of the Board and of the Executive Committee. The President shall be the Chief Operating Officer and shall have general supervision and control of the other officers of the Corporation.

At December 31, 2007, the Board of Directors and the Officers of the Corporation were as follows:

DirectorsPrincipal Occupation

Thomas R. Byrd

President and Chief Executive Officer  
 Anthem Southeast, Inc.  
 Richmond, Virginia

Wayne S. DeVeydt

Executive Vice President and Chief  
 Financial Officer  
 WellPoint, Inc.  
 Indianapolis, Indiana

Sandra H. Miller

Senior Vice President and Deputy  
 General Counsel  
 WellPoint, Inc.  
 Indianapolis, Indiana

Officers

Thomas R. Byrd

President

Colin S. Drozdowski

Vice President-Provider Network Management

Carter V. Reid

Vice President-Operations

Nancy L. Purcell

Secretary

S. Owen Hunt

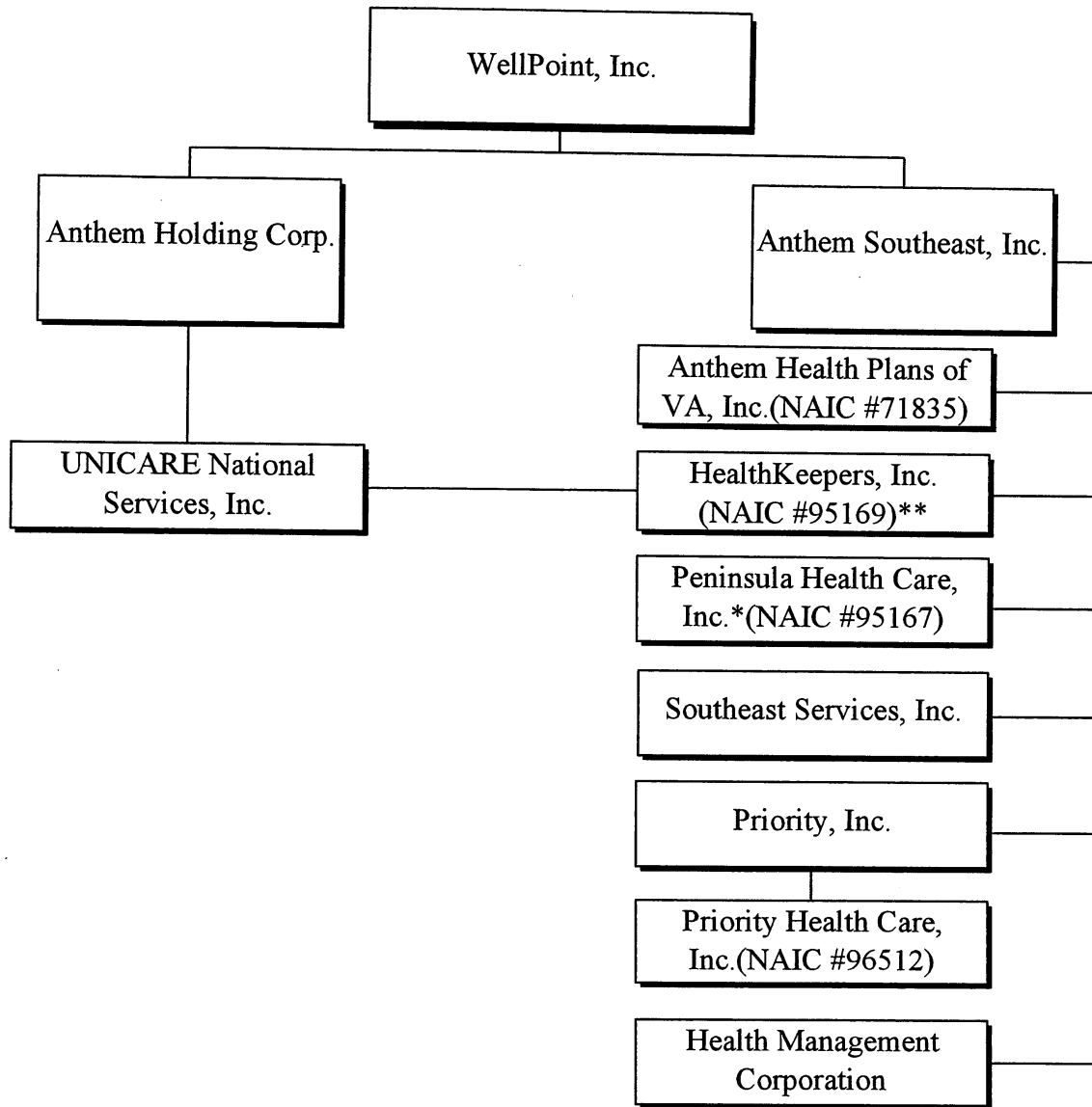
Assistant Secretary

Robert D. Kretschmer

Treasurer

**AFFILIATED COMPANIES**

At December 31, 2007, the Corporation is 88.89% owned by Anthem Southeast and 11.11% owned by UNICARE National. Both Anthem Southeast and UNICARE National are wholly-owned subsidiaries of WellPoint. The chart on the following page illustrates the organizational structure of the Corporation and selected affiliated entities at December 31, 2007.



\* Peninsula Health Care, Inc. is 51% owned by Anthem Southeast, Inc. and 49% owned by Riverside Healthcare Association, Inc.

\*\* HealthKeepers, Inc. is 88.89% owned by Anthem Southeast, Inc. and 11.11% owned by UNICARE National Services, Inc.



## **TRANSACTIONS WITH AFFILIATES**

### **Master Administrative Services Agreement**

Effective January 1, 2006, the Corporation entered into a Master Administrative Services Agreement with WellPoint and its subsidiaries and affiliates (collectively referred to as the "affiliates"). According to the agreement, each affiliate that is party to the agreement may provide certain administrative, consulting and support services to another affiliate upon request. The affiliate rendering services shall be reimbursed for the direct and indirect costs and expenses incurred in providing such services and reimbursement is due within 30 days upon receipt of a statement for the services rendered. The term of the agreement is one year and shall be automatically renewed for additional one-year periods unless terminated upon 90 days written notice. The Corporation incurred \$11,694,773 in fees related to the agreement in 2007.

### **Accounts Payable Agreement**

Effective October 8, 2004, the Corporation entered into an Accounts Payable Agreement with and among Anthem, Inc. (currently WellPoint, Inc.), Anthem Insurance Companies, Inc., The Anthem Companies, Inc., Anthem Services, Inc., Anthem Health Plans of Virginia, Inc. ('AHPVA'), Peninsula Health Care, Inc. and Priority Health Care, Inc. According to the agreement, in order to achieve administrative efficiencies each of the above parties can act as a transfer agent for any of the other parties. As such, the transfer agent takes on the responsibility for transmitting or receiving payment with respect to an account receivable owed by or to another party, affiliate or non-affiliate. The transfer agent agrees to transmit any payment it receives on behalf of a party with respect to an account receivable within the month following the date payment is received by the transfer agent. Likewise, a party for whom a transfer agent has made payment of an account receivable on its behalf will reimburse the transfer agent within the month following the payment. No service fee will be charged and the transfer agent will bear its own cost in performing its services pursuant to the agreement. The initial term of the agreement is one year and it shall renew automatically for one-year terms. A party may terminate its participation in the agreement by giving written notice to all other parties six months in advance.

### **Administrative Services Agreement**

Effective January 1, 2003, the Corporation entered into an Administrative Services Agreement with The Anthem Companies, Inc. (TAC). Pursuant to the agreement, TAC shall provide the Corporation with administrative, clerical, executive, technical and operational skills and the staff to provide such skills. As compensation, the Corporation pays TAC its cost in providing such staff, including salaries, wages, workers'

compensation, disability, illness or sickness benefits, social security obligations and all other compensation related obligations. The Corporation reimburses TAC monthly within thirty days of the end of the month. The agreement shall remain in effect until terminated by either party upon thirty days written notice. The Corporation incurred \$31,124,233 in fees related to the agreement in 2007.

#### Excess Medical Stop Loss Agreement

Effective January 1, 2000, the Corporation entered into an Excess Medical Stop Loss Agreement with Trigon Insurance Company (currently AHPVA). Pursuant to the agreement, AHPVA shall reimburse the Corporation 100% of the losses paid during the twelve-month policy period ending December 31, 2007 in excess of the following deductibles:

1. \$500,000 for losses paid for each person enrolled under non-Medicaid contracts.
2. \$500,000 for losses paid for each person enrolled under Medicaid contracts who are not Community Health Associated Physician Organization ("CHAPO") members.
3. \$200,000 for the sum of the losses paid for inpatient facility expenses and outpatient facility expenses which are attributable to CHAPO members.
4. \$25,000 for losses paid for non-facility expenses which are attributable to CHAPO member.

For the purposes of this policy, losses are defined as amounts that are actually paid by the Corporation for medical expenses covered under the contract; in settlement of claims for medical expenses covered under the contracts; or in satisfaction of judgments for medical expenses covered under the contracts. Medical expenses are defined as covered charges for inpatient services rendered by hospitals, rehabilitation and skilled nursing facilities to persons enrolled under contracts and transplant services fees charged by transplant service providers. For hospital, rehabilitation, skilled nursing facility or transplant services expenses, each expense shall be deemed to be incurred upon the date of admission to the hospital, rehabilitation or skilled nursing facility.

This agreement contains a provision that requires the Corporation to pay AHPVA up to a maximum of 30% of the initial premium in the event that the paid losses exceed 85% of the initial premium. Conversely, AHPVA is required to return to the Corporation up to 30% of the initial premium when paid losses are less than 85% of the initial premium.

The maximum lifetime excess insurance indemnity payable under this agreement for any one member shall not exceed \$2,000,000. The agreement includes a continuation of coverage clause and a benefits conversion clause in the event of the Corporation's insolvency. Premiums and claims ceded to AHPVA related to this agreement during 2007 were \$2,801,225 and \$1,300,603, respectively.

#### Consolidated Federal Income Tax Agreement

Effective December 31, 2005, the Corporation became a party to a Consolidated Federal Income Tax Agreement with WellPoint and selected subsidiaries. The agreement establishes methods for allocating the consolidated federal income tax liability of the consolidated group among its members, for reimbursing WellPoint for payment of such tax liability, for compensating any member for use of its tax losses or tax credits and to provide for the allocation and payment of any refund arising from a carryback of losses or tax credits for subsequent taxable years. In accordance with the agreement, for each consolidated federal return year each member shall pay WellPoint an amount equal to the federal income tax payments it would incur if it were filing a separate federal income tax return. Such payments shall be made to WellPoint no later than 30 days after these payments would be due to the federal government if the subsidiary were filing a separate return. For each consolidated federal return year, WellPoint shall pay each member an amount equal to the reduction in the federal income tax liability of the consolidated group, if any, resulting from the use in any taxable year of tax benefits attributable to such member, including the use of net operating losses or tax credits. In the event of a refund, WellPoint shall pay each member its proportional share within 30 days after the refund is received.

#### Solvency Guarantee Agreement

The Corporation's performance, obligations, and solvency are guaranteed by AHPVA through a solvency guarantee agreement that was originally entered into effective April 9, 1986. This agreement remains in effect unless and until reasonable prior written notice has been given by either party to the other and the Commissioner of Insurance of the Commonwealth of Virginia has granted prior approval for such termination.

This solvency guarantee agreement was amended September 1, 1987 to include AHPVA's agreement that in the event the Corporation shall cease operations for any reason, AHPVA coverage will be offered to all of the Corporation's members without exclusions, limitations, or conditions based on health reasons.

### Pharmaceutical Service Agreement

Effective January 1, 2004, the Corporation entered into a Pharmaceutical Service Agreement with Anthem Prescription Management, LLC ("APM") to provide covered pharmacy services to the Corporation's members. As compensation for these services, the Corporation shall pay APM an ingredient cost and a dispensing fee per covered pharmaceutical, which is dependent on whether the pharmaceutical is a brand or generic pharmaceutical and whether it is dispensed through APM's national network of participating retail pharmacies, through APM's network of participating retail pharmacies in Virginia or through APM's mail order pharmacy. Either party may terminate the agreement upon three months advance written notice. The Corporation incurred \$0 in fees related to the agreement in 2007.

### Services Agreement with Health Management Corporation

Effective January 1, 2002, the Corporation entered into a Services Agreement with Health Management Corporation ("HMC") to administer its Family Health Program. The Family Health Program includes a 24-hour toll free nurse line, the Corporation's Baby Benefits Maternity Management and Chronic Disease Management products. As compensation, the Corporation pays a predetermined per member, per month amount to HMC. The agreement had an initial term of one year and renews automatically for one-year terms thereafter. Either party may terminate the agreement upon three months advance written notice. The Corporation incurred \$6,761,659 in fees related to the agreement in 2007.

### Services Agreement with Anthem Health Plans of Virginia, Inc.

Effective January 1, 1996, the Corporation entered into a Services Agreement with AHPVA whereby AHPVA shall provide certain services as outlined in the agreement. During 2007, AHPVA provided claims processing, marketing, underwriting, actuarial, management, accounting, legal and information systems support to the Corporation. For these services, the Corporation shall pay all direct costs and indirect allocable costs monthly. Expenses incurred by the Corporation pursuant to this agreement during 2007 were \$5,438,578.

### Operating Agreement with Peninsula Health Care, Inc.

Effective October 1, 1997, the Corporation entered into an Operating Agreement with Peninsula Health Care, Inc. Pursuant to the agreement, the Corporation shall provide certain claims processing, enrollment, and customer and administrative services. For these services, the Corporation is reimbursed all direct costs and indirect allocable

costs monthly. The Corporation charged \$154,454 in fees related to this agreement during 2007.

Operating Agreement with Priority Health Care, Inc.

Effective January 1, 1996, the Corporation entered an Operating Agreement with Priority Health Care, Inc. ("PHC") whereby the Corporation shall provide or arrange to provide certain administrative and management services required by PHC. During 2007, the Corporation provided claims processing, enrollment and customer service support to PHC. For these services, PHC shall pay all direct costs and indirect allocable costs monthly. The Corporation charged \$225,418 in fees related to this agreement during 2007.

Information Technology Services Agreement with Anthem Insurance Companies, Inc.

Effective January 1, 2005, the Corporation entered into an Information Technology Services Agreement with Anthem Insurance Companies, Inc. ("AICI"). Pursuant to the agreement, AICI shall provide information technology services for desktop applications, security and disaster recovery, user support, applications maintenance and support, voice and data networks, internet infrastructure and eBusiness support, specific project programming, data center and data warehouse storage. For these services, the Corporation shall pay the actual monthly costs incurred by AICI that are allocated to the Corporation based on employee headcount or direct use percentage. The Corporation incurred \$7,285,724 in fees related to the agreement in 2007.

Inter-Company Service Agreement with Community Insurance Company

Effective September 1, 2005, the Corporation entered into an Inter-Company Service Agreement with Community Insurance Company ("CIC") whereby CIC shall provide certain administrative and benefit management services to support the Corporation's offering of Medicare Advantage health benefit plans to its covered members. For these services, the Corporation shall reimburse CIC a monthly fixed cost and a variable cost based on projected administrative expenses per covered member per month. Within 90 days after the end of the calendar year, a review of CIC's actual expenses incurred to support the Corporation shall be conducted. If the Corporation's monthly fixed and variable cost fees for the calendar year exceed CIC's actual costs then CIC shall refund the excess to the Corporation. If CIC's actual costs exceed the Corporation's monthly fixed and variable cost fees for the calendar year then the Corporation shall pay CIC the difference. The Corporation incurred \$0 in fees related to the agreement in 2007.

## Dividends

The Corporation paid cash dividends of \$13,940,075 and \$47,049,663 in 2005 and 2006, respectively. The dividends were paid to Anthem Southeast in 2005 and to Anthem Southeast and UNICARE National in 2006. On August 24, 2007, the Corporation filed a request with the Bureau to pay an extraordinary cash dividend of \$86,596,740 to Anthem Southeast and UNICARE National. The Bureau approved the Corporation's request on September 11, 2007 and the dividend was paid on September 25, 2007.

## **CONFLICT OF INTEREST**

The Corporation has adopted WellPoint's corporate conflict of interest policy. The policy states that directors, officers and associates must discharge their business responsibilities in a manner that furthers the interests of the Corporation and must not compromise the interests of the Corporation because of a conflict of interest with their other business or personal interests. Directors, officers and certain employees are required to complete a conflict of interest disclosure form in order to disclose business and personal interests that could be adverse to the interests of the Corporation. The objective of the disclosure is to protect the interests of the Corporation and alert its directors, officers and its responsible employees to business decisions and activities for which they must exercise special care or in which they should not participate.

## **FIDELITY BOND AND OTHER INSURANCE**

At December 31, 2007, the Corporation was listed as a named insured on WellPoint's financial institution bond with a \$10,000,000 limit of liability, subject to a \$750,000 deductible, to insure against losses arising from dishonest acts of its officers and employees. In addition, the Corporation was listed as a named insured on a commercial property insurance policy, a general liability policy, a business automobile liability policy, an umbrella liability policy, a workers compensation and employers liability policy, a directors and officers liability policy, a fiduciary liability policy, a managed care professional liability policy and a financial institution electronic and computer crime policy.

## **TERRITORY AND PLAN OF OPERATION**

At December 31, 2007, the Corporation's service area, as reported in its 2007 Annual Statement, included the Virginia counties of Accomack, Albemarle, Amelia, Arlington, Bedford, Botetourt, Brunswick, Buckingham, Caroline, Charles City, Charlotte, Chesterfield, Clarke, Craig, Cumberland, Dinwiddie, Essex, Fairfax, Fauquier, Floyd, Fluvanna, Franklin, Giles, Gloucester, Goochland, Greene, Greenville, Halifax, Hanover, Henrico, Isle of Wight, James City, King and Queen, King George, King

William, Lancaster, Loudoun, Louisa, Lunenburg, Madison, Mathews, Mecklenburg, Middlesex, Montgomery, Nelson, New Kent, Northampton, Northumberland, Nottoway, Orange, Page, Pittsylvania, Powhatan, Prince Edward, Prince George, Prince William, Pulaski, Rappahannock, Richmond, Roanoke, Rockbridge, Shenandoah, Southampton, Spotsylvania, Stafford, Surry, Sussex, Tazewell, Warren, Westmoreland, Winchester, Wythe and York. In addition, the service area included the Virginia cities of Alexandria, Bedford, Buena Vista, Charlottesville, Chesapeake, Colonial Heights, Danville, Emporia, Fairfax, Falls Church, Franklin, Fredericksburg, Hampton, Hopewell, Lexington, Manassas, Manassas Park, Newport News, Norfolk, Petersburg, Poquoson, Portsmouth, Radford, Richmond, Roanoke, Salem, South Boston, Suffolk, Virginia Beach and Williamsburg.

Medical services are provided by physicians in independent practice within the Corporation's service area. Each member chooses a primary care physician ("PCP") from a list of the Corporation's primary providers. The PCP is responsible for coordinating all of the member's health care needs. Except in emergencies, a member must obtain services only from, or prearranged by, their PCP. Specialty physicians are available only with a referral from a PCP. All hospital admissions must be arranged by the member's PCP and approved in advance by the Corporation. In addition, the Corporation offers a point of service option which allows a member to receive services from outside of the Corporation's participating network of providers.

At December 31, 2007, the Corporation had a contract with the Virginia Department of Medical Assistance Services to administer coverage to Medicaid enrollees which comprised 33% of its premium revenue in 2007.

## **PROVIDER AGREEMENTS**

### **Medical Services**

The Corporation has entered into agreements with numerous PCPs and specialist physicians to render, provide or arrange for the provision of covered health care services to enrollees. The Corporation compensates participating physicians either on a capitated basis or a fee-for-service arrangement. Additionally, PCPs participate in an incentive program based on qualitative measures such as quality of care, as well as service and resource management.

### **Hospital Care**

The Corporation has entered into agreements with a number of hospitals in its service area to provide covered hospital services to its enrollees. The Corporation

compensates participating hospitals on either a case/admission rate basis or a per diem rate basis.

#### Other Health Care Services

The Corporation has entered into various ancillary service agreements. These agreements provide mental health services, pharmacy services, home health care, physical therapy, durable medical equipment and other related covered health care services. Compensation is based on arrangements set forth in each contract.

### **CONTRACT FORMS**

#### Group Contracts

The group contracts generally cover the following services provided by PCPs, specialty care physicians, and other participating providers:

1. Primary care physician services
2. Specialist physician services
3. Hospital services
4. Early intervention services
5. Diagnostic services
6. Maternity care services
7. Skilled nursing facilities services
8. Hospice care services
9. Mental health and substance abuse services
10. Home health care services
11. Durable medical equipment
12. Prescription drug services
13. Therapy services
14. Wellness services
15. Emergency and urgent care services
16. Ambulance services

Exclusions generally include benefits related to a non-covered service, cosmetic procedures, dental services, experimental procedures, family planning services, genetic testing and routine foot care.

The above are general summaries of coverages and exclusions and the provisions in each individual group contract may vary.



### GROWTH OF THE CORPORATION

The following data is representative of the growth of the Corporation for the ten-year period ending December 31, 2007. The data is compiled from the Corporation's filed Annual Statements, previous examination reports, and the current examination report. In accordance with SSAP No. 68, Business Combinations and Goodwill, the 2005 financial data includes UNICARE Health Plan of Virginia, Inc. which merged with the Corporation effective January 1, 2006.

<u>Year</u>	<u>Total Admitted Assets</u>	<u>Total Liabilities</u>	<u>Capital And Surplus</u>		
1998	\$76,746,471	\$52,769,362	\$23,977,109		
1999	90,085,238	63,133,052	26,952,186		
2000	121,460,371	72,308,410	49,151,961		
2001	145,328,095	77,545,126	67,782,969		
2002	168,246,689	80,672,140	87,574,549		
2003	200,693,744	87,306,904	113,386,840		
2004	219,395,815	79,995,061	139,400,754		
2005	308,840,176	108,004,090	200,836,086		
2006	327,790,569	116,597,629	211,192,940		
2007	311,037,750	130,569,451	180,468,299		

<u>Year</u>	<u>Total Revenue</u>	<u>Net Investment Gain</u>	<u>Medical &amp; Hospital Expenses</u>	<u>Administrative &amp; Other Expenses</u>	<u>Pre-Tax Income (Loss)</u>
1998	\$269,197,624		\$223,049,569	\$41,852,863	\$4,295,192
1999	315,282,130		263,750,318	45,079,838	6,451,974
2000	352,402,763		278,979,015	46,345,264	27,078,484
2001 *	388,937,494	9,076,481	319,780,906	49,688,829	28,544,240
2002	474,701,962	10,516,865	380,983,011	64,419,989	39,815,827
2003	544,349,109	6,069,896	415,722,561	80,567,136	54,129,308
2004	506,231,703	7,614,812	393,557,769	65,620,373	54,668,373
2005	705,039,610	8,963,427	543,363,569	80,523,315	90,116,153
2006	766,017,027	11,904,113	610,631,537	77,181,632	90,107,971
2007	829,843,485	13,067,722	680,648,493	77,570,043	84,692,671

\*Prior to 2001, Net investment gains or losses were included in Total Revenue.

The Corporation's enrollment data at year-end is illustrated as follows:

<u>Year</u>	<u>Number of Members</u>
1998	177,556
1999	206,377
2000	205,996
2001	231,946
2002	237,705
2003	256,047
2004	206,920
2005	218,588
2006	283,128
2007	283,201

**SPECIAL RESERVES AND DEPOSITS**

At December 31, 2007, the Bureau required that the Corporation maintain a minimum of \$4,253,059 on deposit with the Treasurer of Virginia.

### SCOPE

This is a full scope financial condition examination initiated and conducted under the provisions of Article 4, Chapter 13 of Title 38.2 of the Code of Virginia. The examination covers the period from January 1, 2005 through December 31, 2007. Assets were verified and liabilities were established at December 31, 2007. A review of income and disbursements for the period was made to the extent deemed necessary.

The items comprising the Balance Sheet for which Specific Risk Analyses (SRA) were required had medium or low risk assessments as determined from the National Association of Insurance Commissioners Examiners Handbook. Analytical review procedures were applied for non-SRA items.

In addition, the following items were reviewed, several of which are discussed separately under their respective captions in this report.

History  
Corporate Records  
Management and Control  
Transactions with Affiliates  
Conflicts of Interest  
Fidelity Bond and Other Insurance  
Territory and Plan of Operation  
Provider Agreements  
Contract Forms  
Special Reserves and Deposits  
Accounts and Records  
Financial Statements

**FINANCIAL STATEMENTS**

There follows a statement of financial condition as of December 31, 2007; a statement of revenue and expenses for the year ending December 31, 2007; a reconciliation of capital and surplus for the period under review; and a statement of cash flow for the year ending December 31, 2007. The financial statements are presented in accordance with Statutory Accounting Principles.

**ASSETS**

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$230,442,790		\$230,442,790
Cash and short-term investments	<u>36,060,622</u>	<u></u>	<u>36,060,622</u>
Subtotals, cash and invested assets	\$266,503,412	\$0	\$266,503,412
Investment income due and accrued	2,549,135		2,549,135
Uncollected premiums and agents' balances in the course of collection	9,980,807	315,688	9,665,119
Amounts recoverable from reinsurers	1,323,348		1,323,348
Amounts receivable relating to uninsured plans	12,282,477	9,974	12,272,503
Net deferred tax asset	4,697,275	916,284	3,780,991
Furniture and equipment, including health care delivery assets	10,103	10,103	0
Receivables from parent, subsidiaries and affiliates	9,911,392		9,911,392
Health care and other amounts receivable	9,040,070	4,008,220	5,031,850
Miscellaneous receivables	<u>10,303</u>	<u>10,303</u>	<u>0</u>
Total assets	<u><u>\$316,308,322</u></u>	<u><u>\$5,270,572</u></u>	<u><u>\$311,037,750</u></u>

**LIABILITIES, CAPITAL AND SURPLUS**

	<u>Covered</u>	<u>Uncovered</u>	<u>Total</u>
Claims unpaid	\$74,865,045	\$2,089,547	\$76,954,592
Accrued medical incentive pool and bonus amounts	4,483,128		4,483,128
Unpaid claims adjustment expenses		3,069,465	3,069,465
Aggregate health policy reserves		5,659,690	5,659,690
Aggregate health claim reserves		17,956	17,956
Premiums received in advance		10,115,144	10,115,144
General expenses due or accrued		8,005,485	8,005,485
Current federal income tax payable and interest thereon		1,978,116	1,978,116
Ceded reinsurance premiums payable		256,480	256,480
Remittances and items not allocated		196,542	196,542
Amounts due to parent, subsidiaries and affiliates		18,533,038	18,533,038
Liability for amounts held under uninsured plans		1,295,756	1,295,756
Unclaimed property		4,059	4,059
Total liabilities	<u>\$79,348,173</u>	<u>\$51,221,278</u>	<u>\$130,569,451</u>
Common capital stock			\$1,125
Gross paid in and contributed surplus			17,598,662
Surplus notes			8,716,141
Unassigned funds (surplus)			<u>154,152,371</u>
Total capital and surplus			<u>\$180,468,299</u>
Total liabilities, capital and surplus			<u><u>\$311,037,750</u></u>

**STATEMENT OF REVENUE AND EXPENSES**

	<u>Uncovered</u>	<u>Total</u>
Net premium income	XXX	\$830,307,493
Change in unearned premium reserves and reserve for rate credits	XXX	(463,623)
Loss on sale of fixed assets	XXX	(385)
Total revenues	XXX	\$829,843,485
<b>Hospital and Medical</b>		
Hospital/medical benefits	\$10,546,546	\$348,736,321
Emergency room and out-of-area	1,431,859	15,659,522
Prescription drugs	3,528,582	129,951,875
Aggregate write-ins for other hospital and medical	2,972,744	183,365,382
Incentive pool, withhold adjustments and bonus amounts		4,235,995
Subtotal	\$18,479,731	\$681,949,095
<b>Less:</b>		
Net reinsurance recoveries	1,300,602	1,300,602
Total hospital and medical	\$17,179,129	\$680,648,493
Claims adjustment expenses	25,802,676	25,802,676
General administrative expenses	46,760,465	46,760,465
Increases in reserves for life and accident and health contracts	4,752,168	4,752,168
Total underwriting deductions	\$94,494,438	\$757,963,802
Net underwriting gain	XXX	\$71,879,683
Net investment income earned		\$13,316,696
Net realized capital gains or (losses)		(248,974)
Net investment gains		\$13,067,722
Miscellaneous expenses		(\$254,734)
Net income before federal income taxes	XXX	\$84,692,671
Federal income taxes incurred	XXX	30,310,162
Net income	XXX	\$54,382,509

**RECONCILIATION OF CAPITAL AND SURPLUS**

	<u>2005</u>	<u>2006</u>	<u>2007</u>
Capital and surplus prior reporting year	<u>\$155,324,709</u>	<u>\$200,836,086</u>	<u>\$211,192,940</u>
<b>GAINS AND LOSSES TO CAPITAL AND SURPLUS</b>			
Net income	\$58,572,190	\$61,596,740	\$54,382,509
Change in net unrealized capital gains and (losses)	0	(9,893)	(43,457)
Change in net deferred income tax	422,410	27,270	2,310,632
Change in nonadmitted assets	456,852	(4,207,600)	(777,585)
Dividends to stockholders	<u>(13,940,075)</u>	<u>(47,049,663)</u>	<u>(86,596,740)</u>
Net change in capital and surplus	<u>\$45,511,377</u>	<u>\$10,356,854</u>	<u>(\$30,724,641)</u>
Capital and surplus end of reporting year	<u><u>\$200,836,086</u></u>	<u><u>\$211,192,940</u></u>	<u><u>\$180,468,299</u></u>

For comparison purposes, 2005 financial data includes UNICARE Health Plan of Virginia, Inc. which merged with the Corporation effective January 1, 2006.



**CASH FLOW****Cash from Operations**

Premiums collected net of reinsurance	\$833,180,014
Net investment income	14,622,107
Miscellaneous income	(385)
Total	<u>\$847,801,736</u>
Benefit and loss related payments	\$675,571,462
Commissions, expenses paid and aggregate write-ins for deductions	73,426,929
Federal income taxes paid	29,127,774
Total	<u>\$778,126,165</u>
Net cash from operations	<u>\$69,675,571</u>

**Cash from Investments**

Proceeds from investments sold, matured or repaid:	
Bonds	\$162,977,686
Total investment proceeds	<u>\$162,977,686</u>
Cost of investments acquired (long-term only):	
Bonds	\$133,894,553
Total investment acquired	<u>\$133,894,553</u>
Net cash from investments	<u>\$29,083,133</u>

**Cash from Financing and Miscellaneous Sources**

Cash provided (applied):	
Dividends to stockholders	(\$86,596,740)
Other cash applied	<u>(3,613,044)</u>
Net cash from financing and miscellaneous sources	<u>(\$90,209,784)</u>

**RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS**

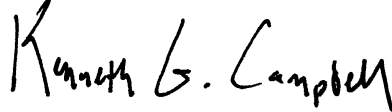
Net change in cash and short-term investments	\$8,548,920
Cash and short-term investments:	
Beginning of the year	<u>27,511,702</u>
End of the year	<u><u>\$36,060,622</u></u>

**CONCLUSION**

The courteous cooperation extended by the Corporation's officers and employees during the course of the examination is gratefully acknowledged.

In addition to the undersigned, Darrin Bailey, CFE, Cliff Lewis, CFE, George Morgan, CFE, and LeShan Smith participated in the work of the examination.

Respectfully submitted,

A handwritten signature in black ink that reads "Kenneth G. Campbell". The signature is written in a cursive style with a large initial "K".

Kenneth G. Campbell, CFE  
Assistant Chief Examiner

**C. Burke King**  
**President**  
**Virginia Market**

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burke.king@anthem.com



September 25, 2008

Mr. David H. Smith, CFE, CPA, CPCU  
Chief Examiner  
State Corporation Commission  
Bureau of Insurance  
Tyler Building, 6th Floor  
1300 Main Street  
Richmond, VA 23219

RE: HealthKeepers, Inc. Financial Examination Report  
as of December 31, 2007

Dear Mr. Smith:

This letter is to confirm receipt of the above report. We noted there are no recommendations of corrective action to address. Thank you for the cooperation extended by your team during this examination.

Sincerely,

A handwritten signature in black ink, appearing to read "C. Burke King". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

C. Burke King  
President  
Virginia Market